



Arizona
Department of Gaming

2002 - 2003 Annual Report

Janet Napolitano
Governor

Paul A. Bullis
Director

Our Mission:
Protect the Public,
Ensure Compliance with the
Gaming Compacts, and Regulate the
Gaming Industry

Message from the Director

On behalf of the Department of Gaming, I am pleased to submit our Fiscal Year 2003 Annual Report.

Fiscal Year 2003 was a year of significant changes and challenges for the Department. Three years of negotiations culminated new Tribal-State Gaming Compacts being finalized in December, 2002. By the end of the fiscal year, twenty-one of the twenty-two Arizona tribes had signed the new Compacts. The new Compacts place added responsibilities on the Department, and give the Department added resources to meet those responsibilities.

For example, the Department has the new responsibility of auditing tribal contributions to the state; administering the Arizona Benefits Fund, which is the fund into which tribal contributions are deposited; beginning the process to build a Joint Monitoring System to monitor slot machines in the urban casinos; and, most significantly, monitoring poker and blackjack games for the first time.

The Department has also established the Office of Problem Gambling to fulfill our duties under the Compacts and has begun a process to allow problem gamblers to ban themselves from casinos.

These new responsibilities are in addition to our ongoing responsibilities of certifying gaming employees and vendors, inspecting slot machines (approximately 2000 additional devices were added in the fiscal year), monitoring compliance with the compact and investigating instances of non-compliance, and gathering and disseminating intelligence information. The Department has been adding staff and focusing our efforts to meet these responsibilities.

I believe that the new Compacts strengthen the partnership between the State and Tribes. The Department is working hard to be a good partner and to maintain strong working relationships with the Tribes. Working together with the Tribes, I believe that the Department will accomplish our mission of protecting the public and ensuring compliance with the Gaming Compacts.

Paul A. Bullis
Director

Who We Are

The Arizona Department of Gaming (ADG) is the State's regulator of Indian casinos. ADG is funded entirely by the Indian gaming industry. No taxpayer funds, i.e. State General Fund revenue, are used by ADG.

ADG is in an important transition period – moving from old compacts to the new compacts, which went into effect February 5, 2003.

Compacts are the agreements between the tribes and State that lay out the terms under which tribes may conduct gaming in the State of Arizona.

New Compacts Include:

- Tribal contributions to State of up to 8% of gaming revenue:
- Tribal contributions to fund the following:
 - Arizona Department of Gaming
 - Problem gambling
 - Local governments for services including public safety
 - School districts
 - Trauma and emergency rooms
 - Wildlife conservation
 - Tourism
- A maximum of 29 tribal casinos. There are currently 22 casinos. No additional casinos are allowed in the Phoenix metropolitan area and one additional casino is allowed in the Tucson area
- 15,675 slot machines maximum. Currently there are approximately 11,250 slot machines
- 998 maximum machines per casino
- 100 maximum combined blackjack and poker tables per casino
- Bet limits for poker and blackjack
- Regulation of blackjack and poker by ADG for the first time
- No tribal internet gaming as long as non-tribal entities in the state are prohibited
- Tribes may transfer a limited amount of their slot machines to other tribes allowing remote tribes to benefit from gaming without having to operate casinos
- Coordinated law enforcement plan, requiring POST -certified officers
- Implementation of an on-line electronic monitoring system to the urban casinos to monitor slot machines on a real time basis and determine revenues

What We Did

Certification of Gaming Employees

The Department conducts background investigations on all gaming employee applicants for state certification to determine suitability. This includes a complete investigation and documentation of all evidence to support the Department's decision regarding issuance of certification. In FY 2003, we conducted background investigations on 12,425 gaming employee applications, up from 12,383 in FY 2002. This includes new applicants and renewals. State certification for gaming employees must be renewed every year.

Certification of Gaming Vendors

The Department also conducts a thorough background investigation on all gaming vendor applicants to determine their suitability for state certification. In FY 2002, we conducted background investigations on 425 gaming vendors, including 92 new gaming vendors. In FY 2003, the number of gaming vendors increased to 458 with 98 new gaming vendors. With the new compacts, state certification for gaming vendors is now renewed every two years instead of annually.

Inspection of Slot Machines

The Department does random inspections and testing of slot machines to ensure they meet with technical standards including payout percentages set forth in the compact. In FY 2002, the Department inspected 2,825 of the approximately 9,000 slot machines. In addition, they inspected and certified 5,546 games. In FY 2003, they randomly inspected 2,172 machines and certified 5,189 games. With the new compacts, the allocation of slot machines per tribe increased, and by the end of FY 2003, there were approximately 10,750 slot machines in operation.

Regulation of Card Games

Under the new compact, the tribes are authorized to conduct blackjack in addition to non-banked poker. By the end of FY 2003, there were approximately 400 blackjack and poker tables in operation in the facilities. Department personnel underwent extensive training to handle new responsibilities in regulating both blackjack and poker games to ensure their compliance with the requirements in the compact.

Self-Exclusion Process

Using guidelines set forth in the new compact, the Department created a self-exclusion process whereby individuals can have themselves banned from all gaming facilities in the state for a period of one, five, or ten years. On a monthly basis, the list of all self-banned individuals is disseminated to all the gaming facilities in the state so that these individuals are precluded from entering or using any of the services of the gaming facilities during the period for which they are self-excluded.

Tribal Contribution Process

For the first time under the new compact the gaming tribes make quarterly contribution payments to the state based upon a percentage of their class III net win. The Department developed the process, including the reports to be used by the tribes to determine their contribution payments. In addition, the Department developed audit procedures to verify that all tribal contributions have been calculated properly.

Implementation of Electronic Regulatory System

In FY 2002, the Department purchased an electronic licensing and regulatory system that would support virtually all the work processes of the agency. The system replaced an antiquated MS DOS-based database management system. In FY 2003, we incrementally deployed the system department-wide. The system enables the agency to maintain more complete electronic records relating to the individuals and entities that we regulate. It provides our investigators with access to electronic applicant files reducing the need for paper files. Also, it enables them to search the enterprise database and more efficiently construct investigative reports. The system provides for electronic work-flow and management review of on-going investigations. It also provides for tracking of all slot machines in the gaming facilities. With the system's electronic fingerprint storage capability, it eliminated the need to obtain new fingerprints from applicants for processing the annual renewal of their certification.

In the near future, the system will enable the Department to electronically receive applications and fingerprints from the tribes. In addition, we will be able to electronically submit fingerprints and receive criminal history information from DPS and the FBI. This will dramatically reduce the time it takes to process applications for certification.

Arizona Department of Gaming
Revenue and Expenditures

FY Revenue	FY 2002	FY2003
Total Revenue	\$ 6,470,800	\$ 6,443,800
FY Expenditures		
Personal Services	\$ 2,632,500	\$ 2,797,900
Employer Related Services	547,800	599,700
Professional & Outside Services	764,700	579,700
In-State Travel Expense	186,300	148,800
Out-of-State Travel Expense	85,600	124,200
Other Operating Expense	612,200	641,000
Equipment	285,200	151,900
Total Operating Expenditures	\$ 5,115,800	\$ 5,048,700
Revertment to Compacted Tribes	\$ 471,900	